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on a campaign of education for, an improved banking system for the United States of America.

Of the success of the League's campaign there is no doubt. It is evidenced by the fact that for more than two years the question of monetary reform has been growing in the public mind until today it is the question of paramount political as well as economic importance. It has occupied the latter position for many years, but it was not until the League's work was well under way that it was lifted out of classification with the impenetrable mysteries to that of a great, and finally the paramount, public issue. One Congressman reduced the situation to terse form when he said, "No League, no bill."

The League has distributed literally millions of pamphlets. It has been the means of supplying literally millions of columns of matter to newspapers. It has supplied speakers for thousands of meetings. But the indirect results of its efforts have been more momentous. It brought interest in the question of monetary science to an acute stage. It challenged every argument founded on a false conception of monetary economics. It supplied material which made editorial work easier. It translated technicalities into simple language. It stimulated thought and discussion. It freed thousands from the thralldom of half a century of false teaching.

The fact that the Glass bill is not perfectly satisfying is in nowise attributable

to failure on the League's part. It has been stated many times in these columns that the machinery by whose operation the principles enunciated were to be given operation might assume any one of many forms. The Monetary Commission evolved one form, the Glass Committee evolved another. Neither is perfect in anticipated operation. It is doubtful if any, machinery will be perfect until made over after practical test. But either plan has obvious merits and forms a basis on which can be built up an operating success.

The Executive Committee of the League feels, therefore, that the work of the organization has been practically completed and success has been achieved. It will retain its corporate entity and maintain its organization intact against possible contingencies until results are written in the statute books. But unless the unexpected happens, the League will rest content that the question of banking reform and its satisfactory solution is in the hands of the national legislature. Over this body it has no control, and seeks none, as it has had none anywhere save what was based on logic and built up on adherence to proved principles of monetary economics.

As a final testimony of the efficiency of the League's campaign, it may be pertinent to record that the terse statement, "No League, no bill," was made by the Honorable Carter Glass.

The Federal Reserve Act in Congress

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MUCH has been vaguely or erroneously written of the early history of the Federal Reserve Act and there is already a widespread misunderstanding regarding it. Some part of this misunderstanding is due to the fact that much of the work on the Act was done in committee or in caucus or in private conference. To review the whole his-

tory of the measure would be a task of lengthy detail. The following article is not intended to enter into any such elaborate review but to set forth in compact form the chief facts, without controversial discussion. What it offers is merely a consecutive outline of the history of the Federal Reserve Act during its formation and subsequent

discussion in Congress. It will afford, however, as definite an historical account as is possible within a very brief space, of the various stages through which this measure passed.

INCEPTION OF MEASURE

The inception of what afterward became the Federal Reserve Act grew out of the action of the Banking and Currency Committee of the House of Representatives in authorizing, during the spring of the year 1912, an investigation into currency and banking conditions. This authorization led to the organization of the Banking and Currency Committee in two parts, or sections—the one entrusted with an inquiry into what was at the time known as the “Money Trust” and the other assigned the duty of studying and recommending legislation designed to promote banking and currency reform. This second subcommittee was organized under the chairmanship of the Honorable Carter Glass, who had been for several years a member of the Banking and Currency Committee, and its first active work was undertaken at about the opening of April, 1912. At that time this subcommittee retained technical assistance, and instructions were given to make a general survey of pending banking and currency legislation, including especially the proposals of the National Monetary Commission which were embodied in what had come to be known as the Aldrich bill.

Such a survey of pending and proposed legislation, both recent and earlier, was completed and placed in the hands of the subcommittee during June of 1912. An informal discussion of the question of what lines should be followed, ensued. As a result of this informal discussion, it was agreed to prepare a tentative bill which should be based essentially upon the past

experience of the banks of the country in organizing clearing house associations. The conclusion was definitely reached that a central bank of issue and deposit was not desirable but that, instead of this, a district type of organization, in which the banks of the country should participate, was to be preferred. It was further agreed that such district organizations ought to be vested with the function of issuing note currency upon what had come to be known as the elastic, or “asset secured” plan. It was further thought that the reserves of the country should clearly be transferred to such organizations and that large functions of examination and oversight of the rank and file of the banks should be provided for.

WORK OF SUBCOMMITTEE

With these very general principles definitely laid down as a basis, a bill was drafted during the summer and early autumn of 1912, and the substance of this bill was informally discussed at meetings of the subcommittee which occurred during November, 1912. At that time agreement was reached that further progress in the development of the proposed bill would not be possible unless the attitude of the incoming administration (the Honorable Woodrow Wilson having been elected President early in November, 1912) could be known. Mr. Glass accordingly addressed a letter to President-elect Wilson informing him generally of what had been done and asking for his views in the matter.

An early reply was received from the President-elect in which he expressed agreement in the thought that a suitable banking measure should be developed at an early date, and a time was set for consultation with representatives of the subcommittee of the Banking and Currency Committee. This date was December 26, 1912, at

which time Mr. Glass visited Princeton where President-elect Wilson was then living.

During the conference on the 26th of December there was laid before Mr. Wilson the substance of the tentative bill already drafted and question was asked as to his opinion regarding the extent to which the bill should go. Particularly was the question raised with him whether the new bill should provide for an emergency or permanent type of banking organization; whether it should provide for local organization or for a central control of some kind; whether reserves should be transferred to the new banking organization and whether new note issues should be provided for. Most of these points had not been considered by the President-elect except in a very general way. He expressed himself, however, as desirous of making the measure a thoroughgoing, complete banking and currency bill, and was positive in his thought that there should be a central control organization—although he accepted the view already developed in the subcommittee—and that actual banking should be carried on in districts and by local organizations acting more or less independently of one another. He was ready to support the transfer of reserves from existing banks to the new organizations and, in general, granted his support to the idea of complete transformation of the existing banking system.

PUBLIC DISCUSSION OF LEGISLATION

By this time the fact that a bill was seriously under consideration in the subcommittee on legislation had become widely known throughout the country among those who were interested in securing action from Congress. It became necessary to consider the question whether hearings should be given to those who had arguments to

present and views to express and whether it was or was not wise to allow the contents of the proposed bill to become known. On both these points a definite policy was developed as follows:

1. The question of holding hearings had been discussed with President-elect Wilson at Princeton at the meeting already referred to, and he had favored the holding of hearings. It was now determined to make the hearings very inclusive and to send out letters to representatives of labor, to manufacturers' associations, to bankers, to economists and to business men.

2. It was further determined to make public no draft of the proposed bill but to mature it slowly and carefully, especially in view of the fact that action on it could not be expected until after the incoming of the new administration on March 4, 1913. It was, however, determined to make known to persons who had a legitimate interest in the pending measure the principal lines of thought on which the committee was working. Statements on this subject were made from time to time to a variety of inquirers, some of them bankers, some, business men or representatives of their organizations, some, legislators. As a result there was a crop of bills—some published, others never printed but filed with the committee—whose authors sought to put down in writing what they believed to be a plan similar to that favored by the subcommittee and hence presumably likely to become the official plan of the administration.

There was thus a large crop of so-called "original bank bills" in Congress. The Aldrich bill was remodeled by advocates for possible use, free of many objectionable features, and was issued as a revised plan by western students of banking. Other plans were developed in the same way and in

sundry cases the authors of such plans continued to take an interest in the matter after the Federal Reserve Act became public and as it passed from stage to stage, eventually correcting them and bringing them up to date as the Reserve Act itself was perfected in the course of its passage through the different legislative processes. Thus there was at all times during the year 1913 a considerable array of measures whose general thought was the same that had already been developed by the Subcommittee on Banking and Currency, although until such time as the Federal Reserve Act itself became public the terms of the various bills were, of course, widely different both from one another and from those of the Act itself.

During the months of January and February, 1913, the Banking and Currency subcommittee held many hearings upon the plan already laid out and an entirely new redraft of the Federal Reserve Act was made. This redraft had been practically completed at the close of the hearings in February. It differed from the original act chiefly in detail, embodying in one consistent statute the various elements of the plan which had been submitted to President-elect Wilson in the preceding December. It included provision for the transfer of reserves and the issue of notes, for the refunding of government bonds as well as a provision for government supervision and control of the Reserve Banks, although such supervision and control was shared between the government itself and the bankers of the country. This bill also included a provision for the guaranteeing of bank deposits, insofar as the assets of the member banks would permit, and it also contained an elaborate plan for the election of directors in Reserve Banks with the aid of commercial bodies.

After the close of the hearings another redraft was undertaken and was

completed about the beginning of March, 1913. This third main draft contained principally improvements in language and in technique but discarded the plan of guaranteeing bank liabilities and also greatly simplified the method of electing directors.

With the preparation of this plan and the expiration of the old Congress on March 4, the work of the subcommittee was completed and the final draft was once more submitted to President-elect Wilson at Trenton, N. J., where he was visited by Mr. Glass, and the finished work submitted to him. The President-elect again gave to the bill in its revised form a general preliminary approval.

WORK OF THE SECRETARY OF THE TREASURY

Little work was done on the Federal Reserve Act during the month of March, 1913, but at the beginning of April, President Wilson entrusted to Secretary of the Treasury McAdoo the duty of reviewing the measure for the purpose of reporting to him on the subject. The measure was canvassed section by section by the Secretary of the Treasury and a variety of minor changes were made in it. These changes related principally to details of language. Two important changes were, however, introduced during this process. The first was the acceptance of the idea that the notes to be issued by the new banks should in some way be passed upon or approved or guaranteed by the government, while modifications in the plan for the refunding of government bonds were also introduced. It was the thought of Secretary McAdoo that the original funding provision had been unduly unfavorable to the government.

Many of the changes in language proposed in the first instance by representatives of the Treasury were after-

ward cancelled and the original language restored when further study of the draft had convinced the Treasury representatives that the changes which they were at first inclined to introduce had not been well warranted.

One further change of great importance was introduced during this period of the bill's history, although not at the instance of the Secretary of the Treasury. This was the provision calling for par clearance of member bank obligations. There had been a doubt in the minds of the subcommittee whether the introduction of this provision, in addition to the other extensive elements of the measure, would be desirable or not, and it was eventually determined to present the matter to Secretary of the Treasury McAdoo in order to get his thought on the subject.

The "Money Trust" section of the Banking and Currency Committee had in the meantime carried on a lengthy "probe" into banking conditions in New York and had reported that, in no small measure, unsatisfactory conditions there were due to faulty clearing house organization. It had, therefore, recommended certain legislation designed to control clearing houses. Secretary McAdoo was of the opinion that some provision relating to clearing and intended to give the clearance power to Federal Reserve Banks would be desirable as showing that due attention had been paid to the work of the "Money Trust" subcommittee. He accordingly assented in general terms to the plan which was placed before him and which was therefore incorporated into the bill.

ATTEMPT TO SUBSTITUTE AN ADMINISTRATION BILL

Careful study of the Federal Reserve Act as thus drafted, however, led Secretary McAdoo to doubt the wis-

dom of the measure, and he, therefore, proposed and brought to the attention of representative bankers a plan of his own under the terms of which the Treasury would have gone, more or less extensively, into a banking business, with the various subtreasuries as branches. The appearance of this plan, fathered by the Secretary of the Treasury, naturally tended to throw grave doubts upon the prospects of the Federal Reserve Act. About the end of May the whole situation was forcefully brought once more before the attention of the President for his decision.

Meantime a separate and independent bill had been developed by Senator Robert L. Owen of Oklahoma, who had become Chairman of the Banking and Currency Committee of the Senate. President Wilson thus had before him the McAdoo plan, Senator Owen's tentative plan and the draft of the Federal Reserve Act—as well as, of course, a multitude of other bills, drafts and suggestions which had been filed with him by many citizens. After very considerable attention the President determined to hold to his original decision in favor of the Federal Reserve Act and accordingly announced his determination to discard all of the other suggestions which were then before him. In so doing, however, he found it necessary to consult with the so-called Bryan element in the Cabinet which had already been generally advised of the intended scope of the Federal Reserve Act.

As a result of this consultation two further definite changes were made in the bill: the notes to be issued by the several banks were now definitely made liabilities of the United States, while it was determined that the Federal Reserve Board should be exclusively composed of government appointees to be named by the President and confirmed by the Senate. These changes

having been agreed upon, the bill was introduced into Congress in its existing form and thus finally worked out.

Shortly afterward a new House banking and currency committee was appointed with Mr. Glass as chairman. The Glass bill—the completed draft of the Federal Reserve Act—was promptly referred to the Banking and Currency Committee as thus organized and the actual work upon the measure was begun. This work was vigorously undertaken toward the end of June, 1913.

CHARACTER OF MEASURE

It will be observed that the first innovation in the terms of the original measure had come at the instance of Secretary Bryan during late May, 1913. It is interesting, therefore, to know just what the plan was which had been completed for introduction into Congress. Space unfortunately forbids a detailed description. At that time, however, there was prepared for the use, and at the request, of the President, a digest stating the chief content and purpose of the bill. This digest, heretofore never published, is an authentic description of the conclusions tentatively reached up to that time and shows fairly clearly the nature of the original measure. It is accordingly subjoined verbatim:

MEMORANDUM ON SCOPE AND EFFECT OF H. R. —, TO REORGANIZE THE PRESENT BANKING AND CURRENCY SYSTEM.

In H. R. — prepared for introduction by Representative Glass of Virginia it is intended to furnish a comprehensive measure for the attainment of four objects:

(1) Provision of a place for rediscounting commercial paper of specified types.

(2) Provision of a basis for elastic note issues properly safeguarded.

(3) Refunding of outstanding 2 per cent bonds so as not to inflict loss upon present holders.

(4) Provision of machinery for doing foreign banking business.

In order to accomplish these purposes fully it is necessary to (a) repeal certain portions of existing law; (b) rectify various conditions in the present national banking system which are in some cases only indirectly connected with the objects sought; (c) furnish a new class of institutions for the performance of some functions which cannot well be entrusted to existing banks, or at all events can better be performed by others and (d) alter the present reserve system to a very material degree.

The scope of the bill can best be understood by an analytical review of its contents, with reference to sections and paragraphs. This is herewith subjoined.

BASIS OF PRESENT SITUATION

The present banking situation in the United States rests upon the National Bank Act proper as slightly modified from time to time and upon the so-called Aldrich-Vreeland Act (Act of May 30, 1908). Of these acts the latter is completely repealed (Section 1) on the ground that it has never become operative, probably will not become operative except under extreme stress, and was never satisfactory. The National Bank Act itself is modified in numerous essential particulars which will be pointed out from time to time in this memorandum. In a separate measure a general revision of the administrative provisions of the National Bank Act is also provided.

NEW CLASS OF BANKS

Fundamental to the idea of the bill is the creation of a new class of banks (Section 2), to be known as National Reserve Banks. The chief points about these banks are as follows:

(1) Number to be twenty with possible increase later as provided. (Section 2.)

(2) Ownership to be in the hands of the national banks of the twenty districts in which the banks are situated. (Section 2.)

(3) Capitalization to be 20 per cent of the capital of the stockholding banks, one half paid in and one half subject to call. (Section 2.)

(4) Business to be as follows:

(a) Rediscounting of paper presented by

stockholding banks and by other banks under specified conditions, provided such paper grows out of actual agricultural, commercial or industrial transactions and does not run more than a specified number of days. (Section 14.)

(b) Buying and selling government securities, gold and silver bullion and foreign coin, foreign exchange. (Sections 16 and 17.)

(c) Government fiscal operations. (Section 21.)

ISSUE OF NOTES

The bill provides for the maintenance of existing bank notes outstanding so long as their present issuers want to keep them out, and also calls for the establishment of a note issue on a new basis to be put out by the National Reserve Banks. Provision is, however, made for retiring the present National Bank notes at the discretion of their issuers. This plan comprises the following points:

(1) Every national bank would be allowed to continue its note issue exactly as at present. (Section 26.)

(2) It would not, however, be allowed to increase the issue beyond the point at which it stood when the law was passed. (Section 26.)

(3) No newly organized bank would be required to purchase government bonds; hence no new bank would have any note issues. (Section 26.)

(4) Whenever an existing bank retired any of its notes and withdrew its bonds it would lose the right to put out further issues of notes above the amount to which its issue was thus reduced. (Section 26.)

(5) National Reserve Banks would be allowed to issue notes secured in the same way as their other obligations to an amount equal to twice the par value of their capital stock. They would also be allowed to issue additional notes if they desired, equal to the amount of notes withdrawn by the individual banks which might from time to time surrender their note issue privilege in part or in whole. (Sections 23 and 26.)

DISPOSAL OF U. S. BONDS

Recognizing (a) that the present 2 per cent bonds were sold to the banks on the basis of a pledge that they might continue to be used as a basis for circulation, and

that therefore the government is morally bound to maintain their value in a corresponding degree; (b) and that it is desirable to retire the bonds now held behind bank notes and put in their place bonds whose value is sustained solely by their income-paying power, it is provided that:

(1) Banks now holding the bonds may offer these bonds for redemption or conversion into 3 per cent bonds at a rate not to exceed one tenth of their holdings each year. (Section 26.) This would mean that a maximum of about \$65,000,000 a year could theoretically be converted, and the evidence is that that sum would be absorbed without difficulty by investors each year.

(2) At the end of ten years other holders of bonds would be allowed to convert them into 3 per cents. (Section 26.)

(3) As a result of these changes the government would be obliged to increase its interest charge the first year of the new arrangement by an amount not greater than one per cent on \$65,000,000, or \$650,000, while the second year a like addition would be made and so on, until at the end of ten years a possible maximum addition of \$7,300,000 in interest charges would probably have been assumed.

PROTECTION OF NOTES

Fully admitting the necessity of an absolute protection of note issues, the bill seeks to safeguard those for which it provides as follows:

(1) National bank notes are safeguarded at every point by exactly the same elements of protection which exist to-day, none of these being diminished in the slightest degree.

(2) Notes issued by National Reserve Banks are protected by a large gold reserve, by constant close government supervision, and by immediate and prompt redemption. Stringent provisions are made against counting any of these notes as a part of bank reserves, thus insuring their speedy return to the point of origin. (Sections 30, 31, etc.)

(3) All notes are made receivable by the government and are to be received by every bank in the system on deposit at par, without exchange. (Section 23.)

(4) Uniformity in the currency is obtained by making the National Reserve notes identical in appearance and wording with the National bank notes. (Section 23.)

(5) Power to oversee and control the issue of notes is placed in the hands of a supervisory board. (Sections 13, etc.)

GOVERNMENT CONTROL

Overseeing the whole system is created through a so-called Federal Reserve Board, (Section 13) with the following organization and functions:

(1) Board to consist of representatives of (a) National Reserve Banks (b) bank stockholders (c) the government itself. (Section 10.)

(2) Actual working body to be an executive committee of this Board consisting of Secretary of the Treasury, Comptroller of the Currency, and Attorney-General, with four members of the Federal Reserve Board chosen by the latter. (Section 11.)

(3) Board and Executive Committee, as thus made up, to have power to deposit Government funds in National Reserve Banks, to fix rates of rediscount in such banks, to compel any National Reserve Bank to rediscount the paper of any other, and to examine the banks of the system. (Section 13.)

STRUCTURE OF SYSTEM

The effort has been made to "popularize" the control of the whole system of banking thus built up while at the same time preserving a sufficient amount of centralization, controlled by governmental agency, to insure that the whole system shall be responsive to legitimate public demands. The bill is based on the belief that no one should participate in the control of the system unless he is either financially interested himself or chosen by those who are, save insofar as the government steps in to exert the authority of the whole community. With this in mind the system has been developed as follows:

(1) Organization, powers and functions of national banks are left as at present.

(2) National Reserve Banks are incorporated institutions holding Federal charters and in all respects managed like na-

tional banks except as to the election of directors which is provided for as follows:

(a) Banks in every district are divided into five classes according to capitalization. In each class the directors of the banks nominate a candidate for the directorship of the Reserve Bank. These are then voted on (one bank one vote) and a director is chosen for each of the five classes—five in all. (Section 4.)

(b) In the five classes aforesaid bank stockholders vote for and elect a director for each class by a process prescribed in each case making five in all, or with the preceding five, ten. (Section 4.)

(c) The ten men thus named select four others after a prescribed process, eight votes required to elect, and the nominees subject to rejection by the Federal Reserve Board. (Section 4.)

(d) A fifteenth member, to be Chairman of the Board of Directors is chosen by the Federal Reserve Board itself. (Section 4.)

(3) The Federal Reserve Board consists of two members from each district and the three government officials already specified. (Section 10.) It is not an incorporated body, has no banking functions but is supervisory.

(a) One member of the Federal Reserve Board in each district is chosen directly by the directors of the National Reserve Bank of the district. (Section 10.)

(b) A second member of the Board from each district is chosen by the bank stockholders of the district, voting by a prescribed method. (Section 10.)

(c) These members of the two classes referred to choose by ballot four of their own number to join with the government officers already mentioned as the Executive Committee of the Board. These four are designated by the Secretary of the Treasury to hold the offices of President, first and second Vice-Presidents and Secretary of the Federal Reserve Board. (Section 11.)

RESERVES

In the belief that the present reserve system is antiquated and unsatisfactory, that the massing of funds in New York and other financial centers of which so much has been said in recent years, is largely due to

the present reserve requirements of national banks, and that in order to get the real benefit from the system of rediscount which has been proposed as a remedy for many existing evils, it is necessary to base such system upon an actual control of reserves, provision has been made for recasting the present bank reserve system.¹ The plan includes:

(1) Transfer of reserves from existing national banks in reserve and central reserve cities, to National Reserve Banks. (Section 27.)

(2) Spreading out of this process of transfer over a period of fourteen months in order to give as little shock as possible to market conditions. (Section 27.)

(3) Ultimately the establishment of a Reserve System, at the end of the transition period in which so-called country banks will have 15 per cent of reserve (*i. e.* 15 per cent of total demand liabilities) such 15 per cent to be held, 5 per cent in the bank's vaults, 5 per cent with the National Reserve Banks and 5 per cent either at home or with the Reserve Bank; while reserve and central reserve city banks will have reserves of 20 per cent of demand liabilities, of which 5 per cent will be at home, 5 per cent with the Reserve Bank of the district and 10 per cent either at home or with the Reserve Bank. (Section 27.)

(4) The presumed effect of this plan will be to end the placing of reserves with central reserve city banks for use in stock market operations, to keep reserves in some measure at home, and to require speculators to get the funds they need in their operations either by directly borrowing them from persons who hold them and want to lend the cash for that purpose, or else by borrowing from the banks in the places where the operations are to be carried on.

DIVISION OF BUSINESS

The object of the bill is to effect a moderate division and classification of banking business along indicated lines, the net result, presumably, being summed up as follows:

(1) National Reserve Banks will be strictly limited to actual commercial and

¹ Including collections and clearances.

industrial transactions evidenced by very short term paper and on rare occasions under carefully prescribed conditions to financial operations protected by collateral. They will also be able to engage in foreign exchange operations, sales of government securities, etc., as already explained.

(2) National banks will be subjected to precisely the same restrictions as at present with a relaxation in favor of a moderate amount of real estate loans by country banks under carefully guarded conditions. (Section 39.)

(3) By a revision of the administrative features of the National Banking Act, provision will be made for close oversight of National institutions with a view to holding them strictly up to the requirements of a legitimate banking business. (Text of bill still to be submitted.)

(4) In order to possess themselves of the kind of paper entitling them to rediscounts, national banks will find themselves obliged to keep a reasonable proportion of their assets in the form of paper eligible for rediscounting, and this will mean very considerable emphasis upon the strictly commercial aspects of the business done by national institutions.

POSITION OF STATE BANKS

It has not been thought wise to permit State banks to own stock in the National Reserve Banks for two reasons:

(1) State banks by the terms of their organization are differently managed and controlled from national.

(2) The laws of the United States differ with respect to liabilities, the collection of debts, and other matters.

Hence the bill has attempted only to provide for giving these banks equal facilities for doing business by establishing the following conditions:

(1) State banks may affiliate themselves with National Reserve Banks by maintaining the same deposits with the National Reserve Banks that are kept by national banks under the proposed act. (Section 29.)

(2) State banks shall in these circumstances be entitled to do business with and get rediscounts from National Reserve Banks. (Section 29.)

(3) State banks shall be subject to inspection and examination by National Reserve Banks. (Section 29.)

RELATIONS WITH TREASURY

It is believed that the present sub-treasury system is unsatisfactory, clumsy, injurious to business and difficult to manage in times of stress. The bill therefore provides for:

(1) The placing of all current funds of the Treasury in National Reserve Banks and the payment of government creditors by check thereon. (Section 21.)

(2) The equalization of the public funds between the different reserve banks subject to a rate of interest to be fixed by the Federal Reserve Board. (Section 13.)

(3) The trust funds of the Treasury are to be held as at present in the vaults of the Treasury.

FOREIGN BANKS

Recognizing that present banking legislation under the national system is inadequate in its relation to foreign trade, because it furnishes far too little recognition of the necessities of the case, and believing that the development of foreign banking ought to be aided and promoted and at the same time regulated by the national government, it has been sought in drafting the bill to provide:

(1) A new type of institutions created for foreign trade purposes and organized by individuals or existing national banks or both. (Section 41.)

(2) Permission to establish branches in foreign countries and whenever necessary under specified conditions to establish such additional branches in the United States as may seem requisite.

(3) Authority on the part of the National Reserve Banks to deal in foreign exchange and otherwise to facilitate operations involving international trade. (Section 18 and Section 19.)

(4) Permission to national banks to do an acceptance business in all matters relating to foreign trade, the importation and exportation of goods, the furnishing of travellers' funds on letters of credit, etc.

(5) The more efficient and successful handling of financial relations between the United States and foreign countries through

the placing of Treasury funds in the hands of National Reserve Banks.

COMMITTEE SUSTAINS BILL

The work of the Banking and Currency Committee covered a period of several weeks and was largely devoted to the improvement of details in the pending bill. A list of these changes would not be of special interest, even were it possible in a brief treatment of the history of the Federal Reserve Act. It is enough to say that the Committee speedily developed a difference of opinion with respect to the measure, a substantial section of it desiring to broaden the bill in the direction of action which would give to agricultural interests a larger borrowing power. Accordingly, the maturity of paper based upon farming operations was increased to 180 days although all other paper was prohibited from discount for a period of over 90 days. Some other concessions were made to so-called farming interests. Public control over the Reserve Banks was strengthened and a provision creating a so-called Federal Advisory Council, a body of bankers drawn from the various districts and directed to meet at intervals for consultation with the Federal Reserve Board, was established.

Outside these and a relatively small number of other amendments the changes in the Banking and Currency Committee of the House of Representatives amounted to little more than textual change effected for the purpose of improving or clarifying the language employed. When the bill, on September 9, was ready for introduction in the House of Representatives, with a committee report, but little alteration in it had been made in any essential particular. First, however, it was necessary that the bill should pass through the House of Representatives

caucus of the Democratic party. Although severely attacked in the deliberations of this body, which were held behind closed doors, no material change was introduced and the bill accordingly went to the House on September 18. After a short debate, it was finally adopted and sent to the Senate in a form not very different from that already given to it by the Committee.

SENATE HOSTILITY

In the Senate the Federal Reserve Bill, for as such it was now coming to be known, encountered much more serious opposition than it had been obliged to meet and overcome in the lower chamber. The Banking and Currency Committee as then organized was not friendly to it. The Chairman of that Committee, Senator R. L. Owen, had prepared a bill of his own which had not succeeded in making headway. Its place was taken by the Federal Reserve bill which he had finally consented to introduce as drafted in the House.

In the Banking and Currency Committee at least two Democratic groups, neither of them friendly to the measure, were formed, while among Republicans practically two other groups existed, one inclined to favor the bill, the other, to oppose or remodel it. In hearings before the Senate Committee, lengthy opportunity was given to the advocates of a central bank to present argument. Eventually the discussion, although taking a wide range, settled down about the question as to whether there should be fewer or a larger number of Reserve Banks, whether the Reserve Banks themselves should have full power over reserves and collections, and whether the type of note issue which had been favored in the House bill should be retained. It was with great difficulty and, probably, only as a result of the strongest pres-

sure on the part of the Administration that it proved possible to obtain a favorable report to bring the bill before the Senate for debate and eventually to pass it.

Analysis of the Senate debate would be out of the question in any brief space and may therefore be passed over with the remark that, although the discussion resulted in changes in the Federal Reserve bill, which, when combined with those already made by the Senate Banking and Currency Committee, produced a measure very different from that adopted by the House, nearly all of the changes made by the Senate, as will presently be seen, were ultimately surrendered in Conference Committee, the bill being thus shifted back in substance to the original House form. During the Conference Committee sessions, it is worthy of remark, one important innovation was introduced; a substitute section relating to the refunding of government 2 per cent bonds was transmitted to the Committee by Secretary McAdoo and adopted practically as it stood in lieu of the provisions which had been made on that subject by the two houses.

CHANGES BY THE SENATE

It is now worth while to sketch briefly and succinctly the changes made by the Senate in the House draft of the Federal Reserve Act insofar as they were ultimately retained in the final law. The work thus done may be surveyed as follows:²

Turning first to the alterations in the House bill that secured acceptance, the principal features may be enumerated as follows:

(1) Introduction of provision for sale of stock in Federal Reserve Banks to the public in the event that not enough banks

² From article by the author in *American Economic Review*, March 1914.

subscribe for the stock to furnish an adequate capital in any given district.

(2) Provision for alternative voting in the choice of directors of Federal Reserve Banks so as to insure prompt election.

(3) Reduction of number of Federal Reserve Banks to not more than 12, as against the "at least 12" of the House bill.

(4) Elimination of requirement that all national banks recharter.

(5) Broadening of powers of Federal Reserve Board and modification of language relating to rediscounts between Federal Reserve Banks, so as to render such rediscounts easier than was intended by the House bill.

(6) Provision that the Secretary of the Treasury might, not must, deposit public funds in reserve banks.

(7) Reduction of reserve requirements placed upon member banks under House bill.

On the other hand, the following important points were yielded by the Senate in the conference:

(1) Omission of provision that holders of stock sold to private individuals (if any) should have voting power in directorates of Federal Reserve Banks and elsewhere.

(2) Elimination of guaranty of bank deposits, by use of surplus earnings.

(3) Elimination of provision that Federal Reserve Bank notes might be counted in reserves of stockholding banks.

(4) Restoration of provision that many classes of checks should be collected at par throughout the country, and that where such par collection was not enforced, the charge for making collection should be fixed by the Federal Reserve Board.

(5) Elimination of domestic acceptances, thereby excluding them from use by stockholding banks and from rediscount by Federal Reserve Banks.

(6) Modification of reserve requirements as formulated by the Senate so as to require actual cash reserves in the vaults of country banks (the Senate having entirely dispensed with such reserves after twenty-four months after date of the passage of the Act) and general stiffening of reserve requirements made by the Senate, although the final language still con-

stituted a reduction below the House provision.

(7) Reduction of period of maturity for which discountable paper might run from 180 days to 90 days.

While various other points of modification and concession on either side might, of course, be enumerated, it is believed that the foregoing presentation is representative and shows sufficiently well the nature of the conference work and the character of the points conceded on either side. Assuming that such a fair or representative selection has been made, it is evident that the work of the conference resulted in the establishment of the House contentions at nearly every essential point, the exceptions to such a remark being found in two main particulars: (1) the reduction in the number of Reserve Banks and their limitation to not more than twelve at any time, and (2) the provision that public deposits might or might not be made in the Reserve Banks at the discretion of the Secretary of the Treasury.

While other points were significant and important in their way, it can certainly be fairly concluded that on those matters involving important issues of theory the House virtually held its own in most respects. In fact, it is an accurate generalization that the final bill as completed in conference committee and as passed by both Houses was a closer approach to the original House draft of the measure than anything that had intervened during the time the bill was going through the various permutations to which it was subjected in its slow progress from one stage to another of the legislative process.

At one other point there was marked and vital departure from the original House measure—the provision with reference to the refunding of United

States 2 per cent bonds and the treatment of the currency based upon such bonds. On this subject the final action of the conference was nearly equivalent to the acceptance of a plan formulated by the Administration and designed to take the place of all of the various other schemes that had been recommended from different sources in either House. The action as to bonds was, therefore, not a concession by either side but was a virtual surrender by both and an acceptance of the conclusions of the Treasury Department. Barring the two matters already mentioned, the House measure was changed in no respect that affected its essential working; nor could it be said that even in these particulars it had necessarily been subjected to modification, since, in both, the action contemplated by the provisions ultimately adopted was permissive, rather than compulsory.

THE INSPIRATION OF THE BILL

As to the idea by which the Federal Reserve Act was dominated or upon which it was molded, or as some have termed it the inspiration of the bill, there has been much unnecessary controversy. The measure as originally made ready for introduction was the outgrowth of the long years of discussion of the banking and currency problem through which the country had passed from 1893 onward. The notion of a district reserve system was directly and confessedly drawn from the experience of the banks of the country with local clearing house organizations. Other features were the careful result of foreign experience. While the bill was thus made up of ideas drawn from all available sources so far as these were known to the committee of the House of Representatives, it was prepared as the result of individual study and without the acceptance of outside bills, suggestions or models. It was, in

short, honest in its inception, professing to be with all of its various defects simply what it actually was—a measure prepared on the basis of American experience, enlightened and adapted by the use of such lessons as could be drawn from European banking practice. As the writer has said on a former occasion:³

The Federal Reserve Act is the product of a lengthy course of development and has grown gradually out of the discussion and analysis of the past twenty years. It is not drawn, even largely, from any single source, but is the product of comparison, selection, and refinement upon the various materials, ideas and data, rendered available throughout a long course of study and agitation. Many bills embodying the same general line of thought that now finds expression in the new act have been offered in Congress; some have been suggested outside that body. The most fundamental concept of all—that of uniting the banks of the country into organized groups—is found in the clearing house organizations, which in time of stress have pooled their resources and converted bank assets into the equivalent of reserve money. The bills prepared by or under the direction of the Honorable Isidor Straus, the Honorable J. H. Walker, the Honorable Charles A. Fowler, and the Honorable Maurice L. Muhleman have supplied at least the basis for many of the detailed analyses and methods of treatment that are found in the Federal Reserve Act. Earlier than any of these, was the bill recommended by the Indianapolis Monetary Commission, which did not provide for coöperative unions of banks, but upon which the framers of the present act have evidently drawn for some of their ideas.

The latest bill in the long series which was available for study to the framers of the Federal Reserve Act, was that prepared for the National Monetary Commission and called in popular language the "Aldrich bill." By many the new law is regarded as a partial copy of, or plagiarism from, the Aldrich bill; and that view has been widely

³ *American Economic Review*, loc. cit.

expressed both in and out of Congress. That such was not the opinion of Mr. Aldrich himself, his scathing and bitter denunciation of the House bill seems to bear abundant witness.⁴ It might be enough for purposes of argument simply to appeal on this point from the critics of the measure to Mr. Aldrich himself but that would hardly answer the purpose of historical analysis.

The Aldrich bill may be considered from two standpoints, (1) that of its theory and broad general plan on the one hand, and (2) that of its machinery and technique of construction on the other. From the first standpoint, there is no shadow of relationship or similarity between the Federal Reserve Act and the Aldrich bill. From the second, there is at many points a close resemblance. The Aldrich bill provided for a single central "reserve association" with scanty public oversight, with control vested practically wholly in the banks, and with the preponderance of power in the larger institutions which owned stock. It so arranged things as to keep this "reserve association" relatively inactive except upon special occasions of panic or disturbance.

It made no direct provision for the shifting of reserves in part from existing banks to the proposed association, but it relied upon inflation due to the placing of bank notes issued by the central association in the reserves of the stockholding banks for protection in time of danger. The new act provides for twelve reserve banks, introduces the principle of local control, calls for strict government oversight, shifts reserves from present correspondent banks to the new institutions, minimizes the influence of the larger banks in directorates, and generally diffuses control instead of centralizing it. It leaves banking, as such, to be practiced by bankers; it vests the control of banking in the hands of government officers. The theory and purpose of the new act are widely different from those of the Aldrich bill. Where the Aldrich proposal veers widely away from the tendencies that have been developed during the preceding ten years of American banking discussion, the Federal Reserve Act closely follows them. Indeed, the Act of 1913 is closer to any one of half a dozen bills of former years than to the Aldrich proposal.

The Aldrich-Vreeland Emergency Currency

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THE origins of everything in the world, from man himself to slang words and phrases, from vast and perfect mechanisms to manners and customs, or great eras and economic cycles, always have held a special fascination. And there has always been someone, whether it be Darwin or the Encyclopaedia Britannica, to ferret out each firstling.

To point to the circumstances of the origin of the American currency inflation, the progress of which during the last seven years has had so profound an effect upon every branch

of our national activity, is not a difficult task. Although inflation of such tremendous proportions previously had been unheard of, the stage was especially set in preparation for that event. As a preliminary to the more serious later currency inflation, the United States had innocently provided itself with a lively springboard from which to leap.

THE FORERUNNER OF INFLATION

That springboard was the Aldrich-Vreeland Act which provided a sudden

⁴ Proceedings of American Academy of Political and Social Science, October, 1913.

¹ I am indebted to the office of the Comptroller of the Currency for the statistics of the Aldrich-Vreeland note issues.